



U.S. Small Business
Administration

SBA CAPLine Program Options

April 9, 2019 @ 11 a.m. Eastern

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SBA CAPLine Program Options

7A LOAN GUARANTY PROGRAM

Flexible financing for your small business customers

DE, KY, TN, WV - District Offices

April 9, 2019

Presenter – Bill Reed

Topics for Today's Discussion

Which CAPLine is the Best Fit?

1. WC CAPLine
2. Seasonal CAPLine
3. Contract CAPLine
4. Builders CAPLine

Which CAPLine is the Best Fit?

□ Use of Proceeds

Working Capital CAPLine

- Finance short term working capital/operating needs.

Seasonal CAPLine

- Finance the seasonal increases of A/R and Inventory.

Contract CAPLine

- Finance the costs of one or more specific contracts.

Builders CAPLine

- Finance direct expenses for construction and/or substantial renovation costs for building a home for future sale.

Which CAPLine is the Best Fit?

□ Maturity

- Maximum maturity on the Working Capital, Seasonal, and Contract CAPLines is 10 years while the Maximum maturity on the Builders CAPLine is 5 years.
- CAPLines can be renewed any time during the maximum term period.
- CAPLines with an original maturity of 12 months or less will need to pay an additional guaranty fee within 30 days of renewal.

Which CAPLine is the Best Fit?

□ Collateral

► Existing (on the B/S now) or Creation of assets

- WC CAPLine is secured with eligible trading assets and may be secured with additional assets found on the business & personal B/S.
- Seasonal, Contract, and Builders CAPLines are secured with the assets associated with the creation of what will be.

Working Capital CAPLine

Working Capital CAPLine Financing

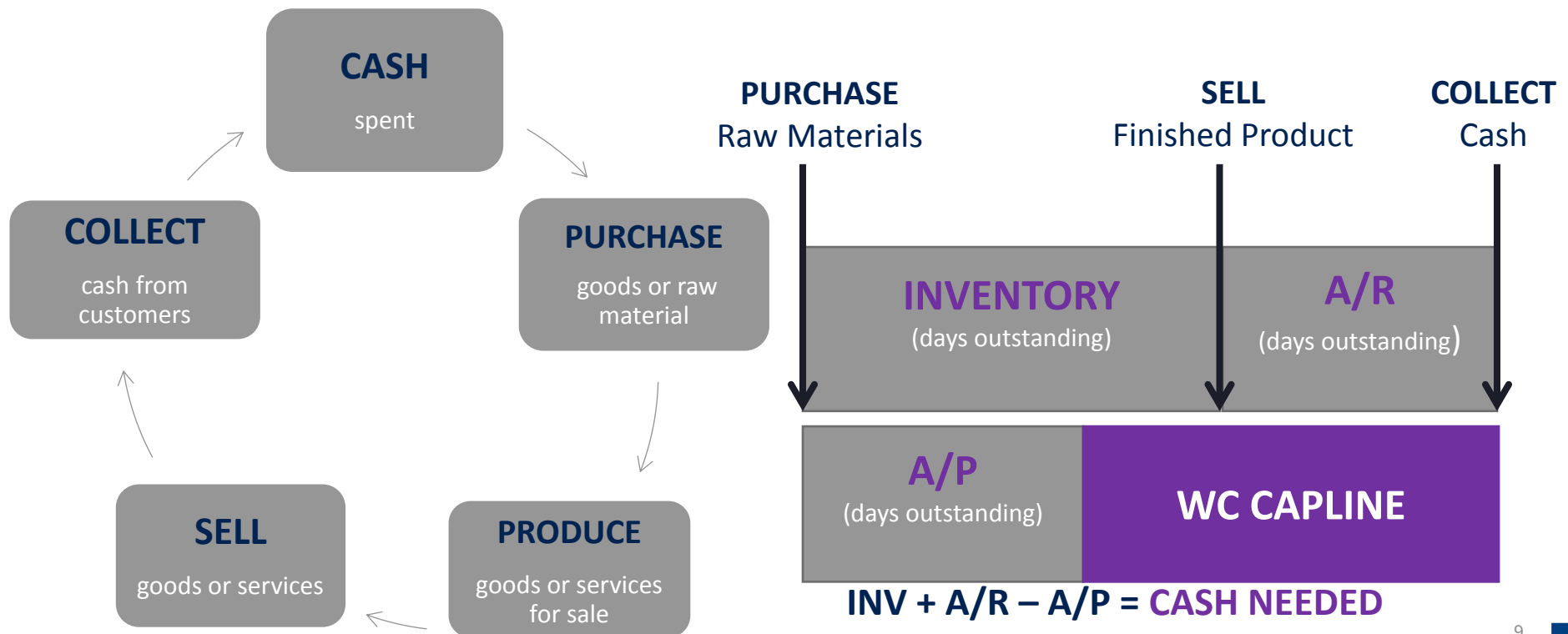
Working Capital CAPLine Key Features

- ❑ Loan Amount Based on Need Analysis
- ❑ **Disbursements Based on Existing Assets**, Either A/R & Inv or All Collateral
- ❑ Repayment Tied to Cash and Accounts Receivable collections, not a Once a Month P&I Payment

Working Capital CAPLine

Supports the Short Term Working Capital needs of the Business

The operating cycle begins with cash spent and is completed once cash is received



General Requirements

☐ Eligibility

- ▶ The applicant must qualify under Standard 7(a) requirements.

☐ Use of Proceeds

- ▶ Finance short term working capital/operating needs.
- ▶ May refinance existing short-term revolving debt.

General Requirements

☐ Must NOT be used to

- ▶ Pay delinquent withholding taxes or similar trust funds (state sales taxes, etc.), or for floor planning.
- ▶ To acquire fixed assets.

If lender discovers the line was used to finance a fixed asset; it must refinance that portion of the line into an appropriate term facility no later than 90 days after the discovery.

General Requirements

- ☐ Maximum line amount \$5,000,000.00.
- ☐ Maximum guaranty amount limited to \$3,750,000 to any one borrower and its affiliates.
- ☐ Maximum guaranty percentage is 75% for loans over \$150,000 and 85% for loans of \$150,000 or less.
- ☐ Maximum interest rate is the same as Standard 7(a).
- ☐ Maximum maturity is 10 years.

General Requirements

- ❑ **Guaranty Fee is the same as Standard 7(a) – Fees may be paid from loan proceeds.**

SBA QUICK REFERENCE CHART No. 5

Gross Loan Size	FEES	NOTES
Loans of \$150,000 or less (See Note 1)	2% of guaranteed portion Lender is authorized to retain 25% of the fee.	Maturities that exceed 12 months.
\$150,001 to \$700,000	3% of guaranteed portion	
\$700,001 to \$5,000,000 (See Note 2)	3.5% of guaranteed portion up to \$1,000,000 PLUS 3.75% of the guaranteed portion over \$1,000,000	
Short Term Loans – up to \$5 million	0.25% of the guaranteed portion	Maturities of 12 months or less

Short Term Revolving Debt Refinance Requirements

1. The short-term revolving debt must be terminated after it is paid off with the CAPLine.
2. The refinancing does not put SBA in a position to sustain a loss which the existing lender is presently facing.
3. The borrower has either a BBC or Collateral sufficient to support the Working Capital CAPLine plus any other short-term debt that is not being refinanced.
4. The refinancing is specifically identified in the Use of Proceeds section of the Authorization.

Short Term Revolving Debt Refinance Requirements

5. If refinancing Same Institution Debt (SID) – the application must be submitted to the Loan Guaranty Processing Center (LGPC) and may not be processed under Delegated Authority.
6. If the application includes the refinancing of same-institution, SBA-guaranteed short-term revolving debt, in addition to the requirements of (1) through (5) above, the lender's exposure to the applicant will not be reduced.

Short Term Revolving Debt Refinance Requirements

Sample Calculation ... Lender's exposure will not be reduced
(SBA loan amount) X (Lender's guaranty %) = Lender's Dollar Exposure

Current Loan at a 50% SBA guaranty:

$$\$350,000 \quad X \quad 50\% \text{ (lender's share)} = \$175,000$$

Proposed Loan at a 75% SBA guaranty:

$$? \quad X \quad 25\% \text{ (lender's share)} = \$175,000$$

New Loan at a 75% SBA guaranty:

$$\$700,000 \quad X \quad 25\% \text{ (lender's share)} = \$175,000$$

For loan amounts less than \$700,000 - Increase the lender's share

$$\text{Request: } \$500,000 \quad X \quad ? \text{ (lender's share)} = \$175,000$$

$$\$500,000 \quad X \quad 35\% = \$175,000 \text{ (SBA guaranty 65\%)}$$

Short Term Revolving Debt Refinance Requirements

7. Required Documents -

- ▶ A copy of the note(s) and an explanation of the terms and conditions of any debt(s) being refi.
- ▶ A copy of the transcript of the account.
- ▶ A borrowing base certificate with an aging of receivables and list of inventory, as necessary.

8. If the short term revolving debt to be refinanced was not revolving - the debt is not eligible to be refinanced under CAPLines.

Determining Loan Amount

To determine the maximum loan amount, the lender may follow its established policies and procedures utilized on its similarly sized, non-SBA guaranteed Commercial Lines of Credit.

Determining Loan Amount

The lender may use the following formula:

Key is the correct calculation of the Business Sales Cycle

		Example	
a.)	Net Sales for prior year	\$1,000,000.00	Per year
b.)	Divide prior year net sales by 365	\$2,700.00	Per day
c.)	Multiply daily sales figure by number of days to finance (whatever number is the business sales cycle)	30	Days
d.)	The result will be the estimated working capital needs	\$81,000.00	Estimated Need

Determining Cash Cycle Days

The cash cycle is the number of days a business takes from the time it acquires inventory, provides a service, manufactures a product etc., until it collects the cash from its sale of that inventory, service, or product.

Receivable Turnover (ARTO) days

+

Inventory Turnover (ITO) days

-

Payable Turnover (APTO) days

=

Cash Cycle days

Determining Cash Cycle Day

<u>Cash Cycle of the Business</u>	(in 1,000's)
Annual Credit Sales	_____
÷ Average Accounts Receivable	_____
= Receivables Turnover Ratio	_____
a) $365 \div \text{Turnover Ratio} = \text{Days of Receivables}$	_____ -
Annual Cost of Goods Sold	_____
÷ Average Inventory	_____
= Inventory Turnover Ratio	_____
b) $365 \div \text{Turnover Ratio} = \text{Days of Inventory}$	_____ -
Annual Purchases	_____
÷ Average Accounts Payable	_____
= Payables Turnover Ratio	_____
c) $365 \div \text{Turnover Ratio} = \text{Days of Payables}$	_____ -
(a+b) - c = Cash Cycle	_____ -

Determining Cash Cycle Days

Cash Conversion Cycle

(in 1,000's)

Accounts Receivable (average)

/ Net Annual Sales

X 365 = **Receivables Turnover** (in days)

-

Inventory (average)

/ Cost of Goods Sold

X 365 = **Inventory Turnover** (in days)

-

Accounts Payable (average)

/ Cost of Goods Sold (acquired)

X 365 = **Accounts Payable Turnover** (in days)

-

Cash Conversion Cycle (in days)

-

Working Capital Needs

\$ _____

(Net Daily Cash Expenditures X Cash Conversion Cycle)

* Based on Use-of-Cash Cycle. This does not take growth into account or include WC reserves for new businesses.

Two Possible Disbursement Structures “BBC” versus “1 to 1”

SBA Allows Working Capital Caplines to Be Disbursed Based on Either

1. The Borrower’s Borrowing Base requiring a Borrowing Base Certificate (BBC)
2. The Value of the Collateral Securing The Line Having 100 Percent (1 to 1) Collateral Coverage

Collateral Requirements

Collateral if the Lender is **Using a Borrowing Base Certificate (BBC) Structure**

1. Lender must obtain a first lien on the applicant's working /trading assets (i.e., A/R, INV)
2. Lender can only Advance against what the BBC will allow.

Collateral Requirements

Remove Ineligible Receivables:

1. Any invoice more than 90 days past due. (exceptions are permitted with SBA's prior written concurrence)
2. A customer who is delinquent on more than 50% of its total outstanding invoices. ALL accounts from that customer are ineligible.
3. All re-billed accounts - the practice of issuing a credit to a customer and re-invoicing the obligations in the current billing cycle.

Collateral Requirements

Remove Ineligible Receivables

4. Foreign receivables not backed by documentation such as standby letters of credit, credit insurance, etc.
5. Contra accounts such as an offsetting receivable and payable between the borrower and one of its creditors.
6. Accounts due from affiliate companies.
7. Accounts that require subordination to other parties—such as Government contracts that require an assignment of the projects receivables.

Collateral Requirements

Eligible and Ineligible Inventory:

Eligible Inventory:

- ☐ Commodities or Raw Materials are eligible.
- ☐ Finished Goods are eligible if readily saleable and not obsolete.

Potential Ineligible Inventory:

- ☐ Work in Progress is ineligible Unless lender obtains SBA's prior written concurrence.

Collateral Requirements

If the lender is **Not using a Borrowing Base Certificate But Rather 1 to 1 Collateral**

1. Lender must obtain a first lien on the trading assets financed with the line **plus any other business or personal assets available to Support the Outstanding Balance.**
2. Lender can only Advance up to the value of the Collateral as Most Recently Determined.

Collateral Requirements

Determining Collateral Value For Non-BBC:

- ▶ Machinery and Equipment is allowed at 50% of Net Book Value (NBV) or 80% of Orderly Liquidation Value minus any prior liens.
- ▶ Real estate is allowed at 85% of the value.
- ▶ An independent appraisal by a qualified individual must be obtained by lender to value fixed assets greater than their NBV.

Determining Disbursement Amount **Using a BBC**

- Disbursements are limited to what the borrowing base **allows** which accounts for what can be advanced and what is already outstanding
- Accounts from any one customer that constitute more than 20% of total outstanding receivables should not be included on BBC.

Determining Disbursement Amount

Using 1:1 Collateral Ratio

If the lender is not using a BBC, determine the availability of funds for disbursement based on the following:

- ☐ Use a combination of factors for the underwriting and credit decision consistent with its similarly sized, non-SBA guaranteed commercial lines of credit.
- ☐ At a minimum complete:
 - ▶ Cash flow analysis to determine the adequacy, duration and dependability of cash flow.
 - ▶ Collateral analysis to establish an estimated value of collateral.
 - ▶ Owner/Guarantor analysis.
- ☐ Assume full utilization of the LOC and secure with sufficient collateral to ensure a 1:1 collateral ratio.

Principal & Interest Payment Requirements

Repayment of Principal and Interest

- ❑ Proceeds must pay down the line as collected with availability to re-advance as long as the borrower is conforming to the maximum amount of the borrowing base certificate.
- ❑ There is no provision for Interest only payments.
 - ▶ Interest must be paid at least monthly from the borrower's own resources or from loan proceeds.

Principal & Interest Payment Requirements

Never Stop Asking Yourself

**How Is Principal Going
To Get Repaid?**

**What Must We Do
To Assure Ourselves that
Principal Will Get Repaid
As Anticipated?**

Level of Funds Control & Monitoring

The level of funds control for a Working Capital CAPLine, whether a BBC is used or not, **is determined by the banking relationship the lender has with the borrower.**

- ☐ Using borrower's **deposit accounts** - the lender is not required to utilize cash collateral accounts or other types of controlled accounts, but must follow its established procedures for its similarly-sized, non-SBA guaranteed commercial lines of credit to monitor payments received.
- ☐ Not using borrower's deposit accounts, then the lender must utilize some form of **controlled account** :

Level of Funds Control & Monitoring

- ❑ **Annual Field Examination** - for loans more than \$1,000,000
 - ▶ Must be conducted by the lender's staff or a 3rd party.
 - ▶ Complete a physical verification of the assets which compose the BBC, including a sampling of the assets.
 - ▶ At a minimum, an examination must be conducted prior to the initial disbursement and annually thereafter.
 - ▶ The lender should describe the level and frequency of examinations in the credit memorandum based on the quality of the records, risk profile of the borrower, and seasonality of the line.

Level of Funds Control & Monitoring Using a BBC

When a BBC is used - the minimum monitoring requirements are:

- ❑ Monthly – BBC; Aging of A/R & A/P; and INV (if advanced against).
 - ❑ Quarterly – Borrower prepared financial statements.
 - ❑ Annually – Borrowers management information system; legal elements; loan agreements; NAICS review; review of cash flow and related financials; and reassess exam, monitoring and control requirements.
-
- ▶ **For \$1,000,000 or less**; credit review including a cash flow analysis, concentration analysis, collateral analysis, owner/guarantor credit review, and **annual site visit**.
 - ▶ **For more than \$1,000,000; same as above plus Annual Field Examination.**

Application Process – Extraordinary Servicing Fee

- ☐ Working Capital CAPLine allows for fees that are reasonable and prudent based on the level of extraordinary effort required.
- ☐ Allows a fee which exceeds 2% per year of the loan amount.
- ☐ Under delegated authority lender must enter the amount of the fee in E-Tran and certify that the fee is reasonable and prudent.
- ☐ The lender cannot charge a higher fee on its SBA-guaranteed loans than the amount charged on its similarly-sized, non-SBA guaranteed commercial loans.

Seasonal CAPLine

General Requirements

Eligibility

- The applicant must qualify under Standard 7(a) requirements.
- Have been in operation for at least 12 calendar months.
- Be able to demonstrate a definite pattern of seasonal activity.

Use of Proceeds

- Borrowers must use the loan proceeds solely to finance the seasonal increases of accounts receivable and inventory (or in some cases associated increased labor costs).

Must NOT

- Funds must not be used to maintain activity during the slow periods of the business's cycle.

Establishing Loan Amount

- ❑ The loan amount is based on the cash flow projections.
- ❑ The amount should correlate to the costs of the seasonal buildup of inventory and/or receivables.
- ❑ Recommend Lender obtain 12 month historic and 12 month projected business cash flow.
 - The resulting month-to-month cash flow requirements will reflect expected WC CAPLine disbursements and payments.

Documentation

- ☐ The lender is required to document the seasonal nature of business and justify proposed dollar amount of the loan.
- ☐ Applicants must submit a month-by-month cash flow for the upcoming 12 months to lender at the time of application and on an annual basis.
- ☐ Lender must file on accounts receivable and inventory under the Uniform Commercial Code (UCC).
- ☐ Lender must conduct an annual review of the Borrower's financial condition and credit status, on either the anniversary date of initial disbursement or upon receipt of annual financial statements.

Disbursements and Repayments

- ❑ Disbursements are made continually during the seasonal build-up period to meet cash requirement for labor, materials, and support of accounts receivables exceeds actual cash receipts.
- ❑ Final disbursement should be made in time for the funds to be utilized in the business and converted to cash which can be used to pay off the loan balance at the commencement of a 30 day clean up period or maturity.
- ❑ Principal repayments on the loan must occur as soon as the cash from the seasonal sales has been received by the borrower. Interest should be paid monthly.

Zero Balance Period and BBC

- ❑ Seasonal CAPLine is the only CAPLine Program that requires a clean up period.
- ❑ For a business with multiple seasons – a 30 day zero balance is required for each season.
- ❑ Lenders can also utilize a system of sub-notes to establish specific repayment periods for particular seasons.
- ❑ Borrowing Base Certificate:
 - Lender may use Borrowing Base Certificates to monitor the borrower's seasonal activity. Borrowing Base Certificates must be submitted by the borrower to the lender no less frequently than monthly.

Contract CAPLine

Contract CAPLine Financing

- ☐ Provides financing in anticipation of what will be created
- ☐ Provides financing against **“What Will Be”**
- ☐ It is not financing against existing receivables

Contract CAPLine Financing

- A Line of Credit type financing used to cover both the Direct and Indirect Costs of one or more specific contract(s)
- Contract CAPLine proceeds may be used to finance materials, labor, overhead, and general & administrative costs, attributable to the contract(s) being financed
- Cannot include any mark-up or profit
- Cannot include G&A and Overhead not associated with the contract(s) being financed

Contract CAPLine Financing

The Danger of Financing G&A and Overhead

- Does the applicant know how to determine the right amount of G&A and Overhead associated with just the contract(s) being financed?
- Do the Lenders know how to check the applicant's calculations?
- What is going to be the Borrower's temptation to get proceeds to cover more G&A and Overhead than is needed for just the contracts being financed?

General Requirements

- The applicant must qualify under Regular 7(a) requirements, Plus be a business performing contracts, sub-contracts, or purchase orders for third parties
- Maximum line amount \$5,000,000.00
- Maximum guaranty amount limited to \$3,750,000 to any one borrower and its affiliates

General Requirements

- Maximum interest rate is the same as Regular 7(a)
- Maximum maturity is 10 years but generally tied to the receipt of the final payment for any contract financed
- Maximum guaranty percentage is 75% for loans over \$150,000 and 85% for loans of \$150,000 or less

General Requirements

- May be revolving or non-revolving, between Contracts and within Contracts
- The funding of multiple contracts requires the use of a master note with multiple sub-notes for each contract being financed
- Recommend the proceeds from the contract receivable be assigned to the lender

General Requirements

- Interest only payments for any period exceeding the borrower's contract final date, or project completion date are not permitted
- An extraordinary servicing fee charged by the lender cannot exceed two percent
- The Contract CAPLine must have an exit strategy – Zero Balance by maturity

Ineligible Use of Proceeds

Contract CAPLine Proceeds may not be use for:

- Permanent working capital;
- To acquire fixed assets;
- To pay delinquent taxes or similar funds held in trust;

Ineligible Use of Proceeds

Contract CAPLine proceeds may not be use for:

- To refinance existing debt;
- To finance a contract in which significant performance has already begun;
- For change in ownership or floor plan financing;
- To cover any mark-up or profit

Ineligible Use of Proceeds

Contract CAPLine proceeds may not be use for:

- Advances identified for one contract under a master note agreement cannot be used for another
- Progress payments received under a master note agreement for one contract cannot be used for another

Eligibility Requirements

Applicants must have developed an adequate track record to assess its short-term working capital needs

- Possess the overall ability to bid accurately project costs, and perform the specific type of work required by the contract
- Have the financial capacity and technical expertise to complete the contract on time and at a profit

Eligibility Requirements

Applicants must have developed an adequate track record to assess its short-term working capital needs

- Be able to demonstrate an ability to operate profitably based upon the prior completion of similar contracts
- The Contract CAPLine is not intended for start-ups

Documentation

Prior to approval, you should obtain from applicant:

- A **project cost schedule** depicting all direct material, labor, and overhead attributable to the contract to be financed. (Profit may not be included.) The schedule must illustrate each cost by line item
a/k/a Bid Sheets
- A **month-to-month cash flow projection(s)** covering the term of each contract, subcontract, or purchase order to determine appropriate disbursement and repayment timeframe

Documentation

Prior to initial disbursement on each contract, subcontract, or purchase order:

- Obtain copy of the executed Contract, Subcontract, or Purchase Order;
- Perfect all liens and verify that the required lien positions have been obtained;
- Obtain copy of the executed assignment of the contract proceeds (if applicable);
- Obtain written acknowledgment of this assignment from the third party (if applicable);
- If contract assignment is not required, document the conditions specified in SOP 50 10 that justify no assignment

Establishing Loan Amount

A Contract CAPLine LOC may be Used to Fund Either a Single or Multiple Contracts

- For **single contract financing** ... The loan amount is equal to the sum of the amounts identified in the project cost schedule as being needed to meet project cost requirements (excluding profit)
- For **multiple contract financing** ... The master note loan amount is equal to the sum of the costs for all contracts as evidenced by the project cost schedule for each specific contract sub-note
- **Sub-Notes** ... must not conflict with the conditions of the master note except for variances in repayment schedule

Establishing Loan Amount

How to address future projects when using an SBA approved Master Note Agreement

- Lender may advance against additional contracts without SBA approval as long as the borrower and lender are in compliance with all terms of the authorization
- Lender will need to follow all previously outlined requirements per SOP 50 10 which includes obtaining a project cost schedule, annual income statement review, confirmation of cash flow, copy of the contract, and month-to-month cash flow projections

Disbursements and Repayments

- Disbursements are made, when needed, to pay for the costs on a specific contract
- Month-to-Month cash flow projections for each Contract, Subcontract, or Purchase Order are used to determine appropriate disbursement and repayment timeframe
- Progress payments are applied first to interest due on the CAPLine, with the remainder applied to the CAPLine balance until the balance is paid in full

Disbursements and Repayments

If the Line is Structured so proceeds only cover select costs, like Direct Costs:

- The lender must establish which costs will be financed and then establish the percentage of each payment to be applied to the loan balance and the percentage to be returned to the business, so they can cover what the loan did not

Disbursements

Scenarios	Assignment of Proceeds	Use of Proceeds
Option 1	Yes	Proceeds finance all costs <ul style="list-style-type: none"> • Apply each payment 1st to interest and the balance to principle
Option 2	Yes	Proceeds finance select costs <ul style="list-style-type: none"> • Identify cost being financed and retain a % of each payment received
Option 3	No	Interest only with principle paid at contract final payment date <ul style="list-style-type: none"> • Full amount of principal must be fully repaid by final payment date
Option 4	No	Proceeds finance all costs <ul style="list-style-type: none"> • Borrower remits all payments to lender
Option 5	No	Proceeds finance select costs <ul style="list-style-type: none"> • Borrower remits required % of each payment received to lender

Collateral

- First lien position on the contract(s) and the proceeds of the contract(s), by assignment to the participating lender and proper UCC filing
- Liens must be perfected prior to the initial disbursement for each contract or project
- The lender may take additional collateral in accordance with its policies and procedures governing its similarly size, non-SBA guaranteed commercial line of credit
- The requirements for personal guaranties are the same as for any other 7(a) program

Assignment of Contract Proceeds

Assignment of Contract Proceeds:

- Before recommending a Decision, Lender should ascertain if an Assignment of Contract Proceeds is Available
- Lender then Decides if they Want that Structure
- Prior to initial disbursement on any Contract CAPLine ... The entity the borrower has entered into the contract with must be advised in writing, by both the lender and borrower, that an assignment of the contract proceeds is required

Assignment of Contract Proceeds

Assignment of Contract Proceeds:

- Such assignment must be in place before any disbursement for a particular contract is made and include a provision for the lender's right to received all payments from the third party
- The lender must receive written acknowledgement from the third party
- A government contract assignment of contract proceeds can be accomplished in the System for Award Management (SAM)

Exception to Assignment of Contract Proceeds

An assignment is not required by SBA if at least two of the following conditions are met:

1. The term of the contract being financed is 12 months or less
2. A successful track record between the borrower and the contracting authority exists relative to the same or reasonably similar contracts
3. Financial analysis of historical income statements and/or tax returns and pro-forma financial statements show that the applicant has a Debt Service Coverage ratio that exceeds 1:1
4. All contract proceeds are paid directly to the lender by the contracting authority or, in the instance where a performance bond is in place, a Funds Control (or escrow of third party servicer) procedure is implemented
5. Other available and worthwhile collateral is pledged to secure the line

Purchase Orders and Contracts with Performance Bonds

Purchase Orders (PO) may be substituted for a formal contract, provided the following conditions exist:

- The PO is issued to the borrower under a Master Agreement; and
- The combination of the PO and the Master Agreement constitute a binding agreement

Prime and Subcontractor Contracts

A contract between a Prime and Subcontractor is eligible to be financed if at least two of the following conditions are met:

1. Both the Prime and the Subcontractor have favorable credit ratings based on an acceptable rating agency (e.g., Builders Industry Credit Association “BICA”);
2. There is a successful track record between the Prime contractor and the Subcontractor (borrower);
3. There is a successful track record between the Prime contractor and the contracting authority;

Prime and Subcontractor Contracts

A contract between a Prime and Subcontractor is eligible to be financed if at least two of the following conditions are met (cont.):

4. The Contract CAPLine amount is less than \$300,000;
5. The term of the contract is 12 months or less;
6. The financial analysis of historical income statements and/or tax returns and pro-forma financial statements show that the applicant has a Debt Service Coverage ratio that exceeds 1:1; or
7. There is other available and worthwhile collateral pledged by either the borrower or any owner/guarantor.

Purchase Orders and Contracts with Performance Bonds

Contracts with Performance Bonds:

A contract requiring a Surety's performance bond may be eligible for a Contract CAPLine provided the lender perfects a UCC security interest in the contract proceeds

- The lender's perfected UCC security interest in the contract proceeds will be subordinate to the cost reimbursement claim of the Surety; and
- The Surety may require that a funds control facility be executed. The funds control facility would disburse directly to suppliers and laborers. The contracting authority will remit contract proceeds directly to the funds control facility, which will remit payment to the lender

Builders CAPLine

What is the Builders Loan Program?

- **Construction of homes for future sale with no sales contract in place (spec homes) is eligible under the Builder's CAPLines program. (13 CFR120.391)**
- **Rehabilitate residential or commercial property for resale under section 7(a)(9) of the Act.**

Eligibility

- **Be construction contractors or homebuilders** under NAICS codes 236220, 236115, 236116, or 236118 with a demonstrated managerial and technical ability in profitable construction or renovation.
- **Have demonstrated a successful performance record** in bidding and completing construction/renovation at a profit within the estimated construction period and comparable type and size to the proposed project.

Eligibility

- **Be able to demonstrate prior prompt payments** to suppliers and subcontractors.
- **Renovations must be “prompt and significant.”** cost of renovation must equal or exceed one-third (1/3) of the purchase price of the property. The cost of renovation of buildings already owned by the Applicant must equal or exceed one-third (1/3) of the fair market value at the time of loan application.

Use of Loan of Proceeds

- **Borrowers must use the loan proceeds solely for direct expenses** related to the construction and/or “substantial” renovation costs of a specific eligible project (residential or commercial buildings for resale).
- **The cost of land is eligible** if the land cost does not exceed **33 percent** of the project cost.
- The borrower **must not use loan proceeds to purchase vacant land** for possible **future construction** or to operate or hold rental property for future rehabilitation.

Refinancing & Term

- **No proceeds** from a Builders CAPLine may be used **to refinance** any existing debt.
- Builders CAPLines cannot exceed **5 years**.

Establishing Loan Amount

Maximum Amount: \$5,000,000

- For a **non-revolving loan**, the loan amount is **based on the written proposal of costs** (not anticipated selling price) provided by the applicant for a single project.
- A **single line** may be utilized to fund multiple projects (managed with sub-notes).
- For a **revolving loan**, the master note amount is based on the **cash flow projection** provided by the applicant for ALL work to be performed.

Collateral Requirements

- **SBA will accept no less than a second lien** position on the property being constructed or renovated, if the purpose of the first lien was to acquire the property.
- If the property is part of a subdivision **the first lienholder must provide a “release clause”** for transfer of clear title to any eventual buyer of individual parcels upon receipt of a pre-established payment.
- Where Lender/SBA is in a second position, the total amount necessary to release the first and second liens **may not exceed 80% of the fair market value** (selling price) of the completed project.

Application Documentation

1. **Obtain month-to-month cash flow** for all work to be performed by applicant.
2. **Obtain a letter from:**
 - ✓ **A mortgage lender** indicating that permanent mortgage money is available to qualified purchasers to buy such properties;
 - ✓ **A real estate broker** indicating that a market exists for the proposed building and that it will be compatible with its neighborhood; and
 - ✓ **An architect, appraiser or engineer** agreeing to make inspections and certifications to support interim disbursements.

Loan Repayment

The repayment of all funds disbursed for any individual project shall occur **within 36 months after completion of each individual project** or at the time of sale, whichever is less.

Before & After



So which CAPLine is the Best Fit?

1. Working Capital CAPLine

- Short term working capital/operating needs.

2. Seasonal CAPLine

- Seasonal increases of A/R and Inventory.

3. Contract CAPLine

- Costs of one or more specific contracts.

4. Builders CAPLine

- Direct expenses for construction and/or substantial renovation costs for building for future sale.

Say “YES” to SBA CAPLine Program

***DE, KY, TN, WV - District Offices
February 12, 2019***

***Presenter – Bill Reed
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